

# RENTAL PROPERTY INSTRUCTIONS AND SCHEDULE



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## Read this part first

This booklet contains instructions, a worksheet and four *Rental property schedules* (schedule). The instructions and worksheet will help you complete your schedule(s).

### Do you need to fill out a Rental property schedule?

If you have an interest in a **foreign** rental property, you **do not** need to fill out a schedule for it, because all your income from such a property is treated as **foreign income**, not rental income.

If you have an interest in a rental property in Australia you need to fill out a schedule.

You need to complete a separate schedule for each rental property you own or have an interest in, unless you have multiple rental properties on one title – for example, a number of flats in an apartment complex that is not under strata title. In such instances, show the details of all those properties on one schedule.

If you are a part-owner of a property, write on the schedule only information concerning your share of total rental income and total rental expenses.

Joint tenants who are not carrying on a business of property rental need to divide the total rental income and expenses for the property equally, as each tenant holds an equal share of the property.

Tenants in common may hold unequal shares in the property. If they are not carrying on a business of property rental, they divide the total rental income and expenses in line with their legal interest in the property.

For further assistance in completing your schedule, please refer to the publication *Rental properties* (NAT 1729-6.2003). The following publications may also be useful:

- *Deductions for prepaid expenses* (NAT 4170-6.2003)
- *Guide to depreciating assets* (NAT 1996-6.2003)
- *Taxation Determination TD 1999/42 – Income tax: do the principles set out in TR 98/22 apply to line of credit facilities?*
- *Taxation Ruling IT 2167 – Income tax: rental properties – non-economic rental, holiday home, share of residence etc. cases, family trust cases*
- *Taxation Ruling TR 93/7 – Income tax: whether penalty interest payments are deductible*
- *Taxation Ruling TR 93/32 – Income tax: rental property – division of net income or loss between co-owners*
- *Taxation Ruling TR 97/23 – Income tax: deductions for repairs*
- *Taxation Ruling TR 97/25 – Property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements*

- *Taxation Ruling TR 98/22 – Income tax: the taxation consequences for taxpayers entering into certain linked or split loan facilities*
- *Taxation Ruling TR 2000/2 – Income tax: deductibility of interest on moneys drawn down under line of credit facilities and redraw facilities*
- *Taxation Ruling TR 2000/17 – Income tax: deductions for interest following the Steele and Brown decisions*
- *Taxation Ruling TR 2000/18 – Income tax: effective life of depreciating assets.*

You can get these publications free from the Australian Taxation Office (ATO) or by ringing **1300 720 092** for the cost of a local call. Our website at [www.ato.gov.au](http://www.ato.gov.au) also provides access to ATO publications and general information on tax matters.

If you need additional copies of these instructions or the schedule, ring the Personal Tax Infoline on **13 28 61** for the cost of a local call.

## Completing the schedule

The following instructions take you through the schedule step-by-step.

### Taxpayer's declaration

When you have completed your *Rental property schedule* please sign and date the Taxpayer's declaration at the bottom of the first page.

### Relevant period

Write the year to which this schedule relates in the space provided near the top of the schedule. If the schedule is for the 2002–03 income year, it would read, 'For the period 1 July 2002 to 30 June 2003'.

## Rental details

Most of the information required under this heading is straightforward, except:

### Date property first earned rental income

#### What you need to know

The date the property first began to earn you rental income does not have to be in the income year to which this schedule relates. For example:

- If you purchased your property on 1 September 1999 but did not derive any rental income until 20 January 2000, write '20 01 2000' in the boxes.
- If your property was first available for rent on 11 June 2000 but you did not derive rental income until 1 September 2000, write '01 09 2000' in the boxes.

## Income – labels A, B and C

### **A** Did you earn any rental income?

- NO** Leave blank and go to label **B**
- YES** Calculate your rental income and write the amount in the boxes provided. Do not show cents.

#### What you need to know

Rental income is the full amount of all rent paid by your tenants. Do not reduce the figure by deducting agent's commission or other costs.

### **B** Did you earn any other rental-related income?

- NO** Leave blank and go to label **C**
- YES** Calculate your other rental-related income and write the amount in the boxes provided. Do not show cents.

#### What you need to know

Other rental-related income includes:

- compensation for lost rent (for example, an insurance payment)
- rental bond money you retain to cover outstanding rent or because of damage to the property
- letting or booking fees
- reimbursements and recoupments, such as reimbursements by tenants for the cost of repairs to the property.

### **C** Working out your gross rent

Add up the amounts shown at **A** and **B** and write the total at **C** (Gross rent).

## Expenses – labels D to W

You can claim a deduction for most expenses you incur for your rental property in respect of the period it is rented or available for rent in the income year. However, unless specified, you cannot claim expenses of a capital or private nature.

For each of the labels **D** to **V** on the schedule you need to work out your **deductible expense**. To do this you subtract any non-deductible expenses from the total amount you have for each category of expense. Write the deductible amount in the relevant boxes. If you do not have any expenses for a particular label, leave the boxes blank.

Use the worksheet on page 8 of these instructions to do your calculations – see example 1. See examples 2–4 for some typical situations where a portion only of the expenses may be deductible. You will find more information and helpful examples in the booklet *Rental properties*.

### EXAMPLE 1

#### Using the worksheet: how to work out your deductible expense for label L – Interest on loans.

Louise took out a loan of \$500,000. She used \$300,000 (60% of the loan) to purchase a rental property and the remainder, \$200,000 (40%), to pay for renovations to her private residence. The interest charged on her loan for the income year was \$2500.

Louise would use the worksheet to help fill out label **L** of her schedule, Interest on loan(s), as follows:

#### Step 1

Louise would write the total interest charged on the loan during the income year – \$2500 – in the Total expenses column of the worksheet at row **L**.

#### Step 2

Louise would calculate the non-deductible portion of the interest, that is, the portion of interest that relates to the part of the loan she used for private purposes. She used 40% of the loan for private purposes, so 40% of the \$2,500 interest is non-deductible, that is, \$1,000. Louise would write \$1,000 in the Non-deductible expense column on the worksheet at row **L**.

#### Step 3

Louise would subtract her non-deductible interest from her total interest (that is, \$2,500–\$1,000) and write the resulting amount, \$1,500, in the Deductible expense column.

Louise's worksheet for row **L** would look like this:

Expense categories	Total expense \$	Non-deductible expense \$	Deductible expense \$	Label
Interest on loan(s)	2,500	1,000	1,500	<b>L</b>

#### Step 4

Louise would write \$1,500 – the figure in the Deductible expense column of row **L** of the worksheet – at label **L** on her *Rental property schedule*.

(See the apportionment examples in the booklet *Rental properties* for further guidance on how to work out your deductible expenses.)

## **D** Did you have any expenses relating to advertising for tenants?

**NO** Leave blank and go to label **E**

**YES** Calculate your deductible advertising expenses and write the amount in the boxes provided. Do not show cents.

## **E** Did you have any body corporate fees?

**NO** Leave blank and go to label **F**

**YES** Calculate your deductible body corporate fees and write the amount in the boxes provided. Do not show cents.

### What you need to know

Payments to a special-purpose sinking fund are usually to cover the cost of capital improvements or capital repairs and are therefore not deductible. (You may be

### EXAMPLE 2

#### *You have a property which you use for both private and rental purposes*

You own a house that contains a granny flat. For the whole of the year, you rent out the granny flat and live in the other part of the house yourself. You can claim deductions only for expenses that relate to the granny flat. For expenses that relate to the property as a whole – such as interest charged on a loan to acquire the property – you can claim the proportion that reasonably relates to the granny flat.

### EXAMPLE 3

#### *You rent out your property for part of the year*

You can claim deductions only for expenses that relate to the period you rented the property out or had it available to rent. You cannot claim deductions for expenses for the whole of the year.

### EXAMPLE 4

#### *You combine private travel with travel relating to your rental property*

You fly to have a holiday and also to inspect your rental property at the same place. You spend one day on matters relating to the rental property and nine days holidaying. Because the main purpose of the trip is the holiday, and the inspection of the property is incidental to that purpose, you cannot claim a deduction for the airfare. But you can claim expenses directly relating to the property inspection, such as taxi fares to get to the property and back to your hotel, and one-tenth of your accommodation expenses.

able to claim a capital works [special building write-off] deduction for the cost of capital improvements or capital repairs once the cost has been charged to the sinking fund – see label **R**).

You can only claim an expense once. If body corporate fees cover expenses that can be shown elsewhere on the schedule – for example, maintenance of the gardens and insurance on the building – write the total amount of fees at **E**. Do not show these amounts twice by including them here and also at labels **J** or **K**.

## **F** Did you have any borrowing expenses?

**NO** Leave blank and go to label **G**

**YES** Calculate your deductible borrowing expenses and write the amount in the boxes provided. Do not show cents.

### What you need to know

These expenses are those directly incurred in taking out a loan for the property. They include establishment fees, stamp duty charged on registration of a mortgage, title search fees and costs for preparing and filing mortgage documents. They also include other costs that the lender requires you to incur as a condition of them lending you the money for the property, such as the costs of obtaining a valuation or lenders mortgage insurance.

If your total for these items is greater than \$100, apportion the cost over five years or the term of the loan, whichever is shorter.

If your total is \$100 or less, deduct the entire amount in the year you incur the cost.

If you obtained the loan part-way through the year, apportion the deduction for the first year according to the number of days you had the loan.

## **G** Did you have any cleaning expenses?

**NO** Leave blank and go to label **H**

**YES** Calculate your deductible cleaning expenses and write the amount in the boxes provided. Do not show cents.

## **H** Did you have any council rates?

**NO** Leave blank and go to label **I**

**YES** Calculate your deductible council rates and write the amount in the boxes provided. Do not show cents.

**I** *Did you have any capital allowance deductions (previously known as depreciation on plant)?*

**NO** Leave blank and go to label **J**

**YES** Calculate your deductible capital allowances and write the amount in the boxes provided. Do not show cents.

**What you need to know**

You can claim a deduction here for the decline in value of a depreciating asset. The asset must have been used, or installed ready for use, for income-producing purposes during the income year.

If you have allocated an asset to a low-value pool and have used the asset to produce your rental income, you do not show your deduction for its decline in value as a rental expense on this schedule or on your tax return. (You claim low-value pool deductions at a separate question in *TaxPack*.)

You may need to read the publication *Guide to depreciating assets* to help calculate your capital allowance deductions.

**J** *Did you have any gardening or lawn mowing expenses?*

**NO** Leave blank and go to label **K**

**YES** Calculate your deductible gardening and mowing expenses and write the amount in the boxes provided. Do not show cents.

**What you need to know**

Include ongoing garden maintenance and lawn mowing expenses here. Do not include garden improvements or new landscaping works.

Do not include gardening fees if they were part of body corporate fees you have claimed at label **E**.

**K** *Did you have any insurance expenses?*

**NO** Leave blank and go to label **L**

**YES** Calculate your deductible insurance expenses and write the amount in the boxes provided. Do not show cents.

**What you need to know**

If you have paid insurance premiums relating to your rental property, you can claim these as a deduction.

Do not include any insurance premiums that were paid as part of body corporate fees you have already claimed at label **E**.

**L** *Did you have any interest on loans?*

**NO** Leave blank and go to label **M**

**YES** Calculate your deductible interest expenses and write the amount in the boxes provided. Do not show cents.

**What you need to know**

If you took out a loan to purchase your rental property or to finance the cost of repairs or renovations to your rental property, you may claim the interest on that loan as a deduction for the period during the year the property was used or held for income-producing purposes (for example, when it is rented or available for rent or undergoing repair or renovation for the purpose of making it available for rent).

If you cease to use the property for income-producing purposes, the interest on the loan will no longer be deductible.

If only part of your loan was for your rental property, you can only claim the interest for that part—see example 1 in these instructions. You can also refer to the apportionment examples in the booklet *Rental Properties* for further guidance.

Do not include the following in this category:

- interest on loans taken out to purchase depreciating assets for your rental property—for example, a refrigerator (include such amounts at label **V** Sundry rental expenses)
- borrowing expenses which are directly incurred in taking out a loan for the property (see label **F** Borrowing expenses, above, and include such amounts there).

**NOTE** **Claiming prepaid interest**

If you prepay interest covering a period of 12 months or less AND the period ends on or before 30 June in the income year following the payment, you can claim an immediate deduction. Prepaid interest that doesn't meet these criteria AND is \$1,000 or more may have to be spread over two or more years – see the publication *Deductions for prepaid expenses*.

**M** *Did you have any land tax expenses?*

**NO** Leave blank and go to label **N**

**YES** Calculate your deductible land tax expenses and write the amount in the boxes provided. Do not show cents.

## **N** *Did you have any legal expenses?*

**NO** Leave blank and go to label **O**

**YES** Calculate your deductible legal expenses and write the amount in the boxes provided.  
Do not show cents.

### **What you need to know**

Some legal expenses incurred in producing your rental income are deductible, for example, the cost of evicting a non-paying tenant or recovering unpaid rent.

Most legal expenses, however, are of a capital nature and are therefore not deductible—including costs of:

- resisting land resumption
- purchasing or disposing of your property, and
- defending your title to the property.

## **O** *Did you have any pest control expenses?*

**NO** Leave blank and go to label **P**

**YES** Calculate your deductible pest control expenses and write the amount in the boxes provided. Do not show cents.

## **P** *Did you have any property agent fees or commission?*

**NO** Leave blank and go to label **Q**

**YES** Calculate your deductible property agent fees or commission and write the amount in the boxes provided. Do not show cents.

### **What you need to know**

These expenses are amounts paid to your property agent for managing and inspecting your rental property.

## **Q** *Did you have any repairs and maintenance expenses?*

**NO** Leave blank and go to label **R**

**YES** Calculate your deductible repairs and maintenance expenses and write the amount in the boxes provided. Do not show cents.

### **What you need to know**

Claim here for expenditure you incurred for repairs to and maintenance of the property or depreciating assets, for example, a washing machine used in the rental property.

Repairs must relate to wear and tear or other damage which occurred as a result of renting the property.

The costs of improving, adding to or altering a rental property are of a capital nature and are not deductible. You may be able to claim a deduction for these costs as part of your capital works deductions (special building write-off)—see label **R**.

## **R** *Did you have any capital works deductions (special building write-off)?*

**NO** Leave blank and go to label **S**

**YES** Calculate your capital works deductions and write the amount in the boxes provided.  
Do not show cents.

### **What you need to know**

You may be entitled to deduct a percentage of the construction expenditure and the cost of structural improvements to your rental property.

The publication *Rental properties* will help you determine the amount of your entitlement, if any.

## **S** *Did you have any stationery, telephone and postage expenses?*

**NO** Leave blank and go to label **T**

**YES** Calculate your deductible stationery, telephone and postage expenses and write the amount in the boxes provided. Do not show cents.

### **What you need to know**

Telephone connection costs are not deductible.

## **T** *Did you have any travel expenses?*

**NO** Leave blank and go to label **U**

**YES** Calculate your deductible travel expenses and write the amount in the boxes provided.  
Do not show cents.

### **What you need to know**

If you travel to inspect or maintain the property or to collect the rent, you may be able to claim the costs of travelling as a deduction. If you combine this travel with travel for private purposes you may need to apportion your expenses—see example 4 above.

If you are claiming car expenses, *TaxPack* contains further information about the deduction you can claim.



**U** Did you have any water charges?**NO** Leave blank and go to label **V****YES** Calculate your deductible water charges and write the amount in the boxes provided. Do not show cents.**V** Did you have any sundry rental expenses?**NO** Leave blank and go to label **W****YES** Calculate your deductible sundry rental expenses and write the amount in the boxes provided. Do not show cents.**What you need to know**

Include here all sundry rental expenses you incurred in deriving your rental income that you have not already included at labels **D** to **U**.

If you have allocated an asset to a low-value pool and used the asset to produce your rental income, you do not show your deduction for its decline in value as a rental expense on this schedule or your tax return. You claim low-value pool deductions at a separate question in *TaxPack*.

Sundry rental expenses may include electricity or gas charges; interest on loans used to purchase depreciating assets such as a refrigerator or hot water system; secretarial and bookkeeping fees; and bank charges on any account used to receive rental income or pay deductible rental expenses.

Other sundry rental expenses you include at this label are such items as mortgage discharge expenses and lease document expenses. These expenses are discussed in the booklet *Rental properties*.

If you use a general operating account, you apportion account keeping fees and debits tax between your rental and other expenditure. You can claim a deduction only for the rental portion of those fees and taxes. You cannot claim a deduction for the portion relating to private expenditure. See examples 1 and 2 above and the apportionment examples in the booklet *Rental properties*.

**W** Working out your total expenses

Add up all your expenses from labels **D** to **V**, and write the total in the boxes at **W** (Total expenses). Do not show cents.

Net rent – label **X****X** Working out your net rent

Take the total expenses figure at **W** away from the gross rent figure at **C** and write the answer in the boxes at **X** (Net rent) on your schedule.

If your total expenses are greater than your gross rent, you have made a rental loss. Print **L** in the box at the right of your figure at **X**.

**NOTE**

Low-value pool deductions for assets used to produce your rental income are not taken into account in the amount you show as net rent—see label **I**, Capital allowance deductions.

## Keeping records

You need to keep records of both the income and deductions relating to your rental property for five years from the date you lodge your tax return.

You must keep records relating to your acquisition and disposal of the property and depreciating assets for five years after you dispose of them. Do not send them in with your tax return. Keep them in case the ATO asks to see them.

## Check that you have . . .

- ☐ completed a *Rental property schedule* for each property
- ☐ written the correct amounts on the schedule for each item that applies to you
- ☐ completed the Taxpayer's declaration on page 1 of the schedule
- ☐ kept records to prove your claims, where required.

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## Rental property worksheet

Expense categories	Total expense \$	Non-deductible expense \$	Deductible expense \$	Label
Advertising for tenants				<b>D</b>
Body corporate fees				<b>E</b>
Borrowing expenses				<b>F</b>
Cleaning				<b>G</b>
Council rates				<b>H</b>
Capital allowances (depreciation on plant)				<b>I</b>
Gardening/lawn mowing				<b>J</b>
Insurance				<b>K</b>
Interest on loan(s)				<b>L</b>
Land tax				<b>M</b>
Legal fees				<b>N</b>
Pest control				<b>O</b>
Property agent fees/commission				<b>P</b>
Repairs and maintenance				<b>Q</b>
Capital works deductions (special building write-off)				<b>R</b>
Stationery, telephone and postage				<b>S</b>
Travel expenses				<b>T</b>
Water charges				<b>U</b>
Sundry rental expenses				<b>V</b>
<b>Total expenses</b>				<b>W</b>

(Add amounts **D** to **V** in each column.  
Transfer the total in the 'Deductible  
expense' column to the boxes at  
label **W** on the schedule)





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